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National Tea Co.

ANNUAL REPORT 1943

MR
CORP. FILE

Annual Report

TO THE STOCKHOLDERS FOR YEAR
ENDED DECEMBER 31, 1943

NATIONAL TEA CO.

In tribute to the men and women of our organization who are serving in the armed forces of our country . . . .

Annual Report

TO THE STOCKHOLDERS

TO OUR STOCKHOLDERS:

Our sales of $91,795,090 were the greatest in the history of the company, but, unfortunately, the same cannot be said of the net profits, which were $351,892. Comparative figures for these and other items are shown in the accounts.

In the food business, the necessary government regulations through the OPA have, in a marked degree, reduced the percentage of our gross profit so that we had not only no war profit but not even what in our line of business would be considered a normal gross profit, while at the same time our expenses were increasing because of manpower difficulties. There can be no question that our volume of business was to quite an extent affected by black markets as well as the inability of manufacturers to supply us with the desired quantities of merchandise.

We do not want to be understood as complaining of OPA regulations. Some of them, no doubt, were ill-advised, and some worked out very inequitably, but these things are bound to happen during wartime in an organization as large as the OPA and as hastily organized. Though these regulations have been complicated and sometimes inconsistent, we have made an honest attempt to obey them all.

As in all businesses, our personnel has been profoundly affected by the war. We

Non-rationed Foods Rank High in Sales Volume

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The buying swing toward non-rationed foods is shown by the sales increase in cereals during the past year.

were gradually building up a young and aggressive organization, but the Army and Navy have taken a large part of it, resulting in the lowering of our operating efficiency.

There was a very unusual turnover in store managers and changes were so frequent that customers could not keep track of them. Of the 1,490 grocery and market managers who held those positions on January 1, 1942, there are only 670 in those same positions now. Of those no longer with us, 403 have gone into military services, the remainder being accounted for by promotions, defense industries, and closing of stores. The total number of our male employees in military service from all parts of our business is 1,983, out of an average full-time male employment of about 3,417.

The same changes in the supervisory field force were occurring at the very time when more intelligent supervision was necessary. These changes, more than anything else, brought about the closing of 90 stores, and, of course, along with priority regulations on materials, prevented the opening of many new stores. We began the year with 950 stores and closed it with 874 stores.

Wage rates have gone up. There is scarcely a part of our business that has not been profoundly affected, and this is true of the departments not unionized as well as those that are. We, therefore, have higher wages, whereas we are contending with lower gross profit, resulting in a disappointing net. It has been necessary to raise wages—in fact, as things go, many of them were certainly earned.

The various things we have said about interference to our business because of wartime regulations are not to be understood as complaints by us, but simply to keep you informed. We understand, as everybody does, that millions of men and women cannot go into the armed services, or defense industries, without affecting everybody.

In September, we purchased the assets of the C. Thomas Stores of Minnesota. For the merchandise we paid $176,886 and for fixed assets (mostly store fixtures) $84,294 after sale of surplus items. No lease obligations were involved excepting such as we willingly accepted. The records of the stores we kept open have been such as to cause us no regret in purchasing them.

During the last year, we sold 13 pieces of real estate for a total of $90,421, at a loss of $61,163. This compares with the previous five years as follows:

1938 Sales....	$ 34,710	$ 6,016 Loss
1939 Sales....	70,162	3,545 Loss
1940 Sales....	142,927	11,236 Loss
1941 Sales....	253,706	47,110 Profit
1942 Sales....	97,814	63,583 Loss

National's Produce Sales Continue on the Upward Trend

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Canned foods rationing gives further impetus to the existing preference for the fresher quality and wider variety of National's fresh fruits and vegetables.

Some sales have been made at a profit—many of them at a loss. We have tried to first dispose of those we no longer occupied for our business before selling the more valuable pieces which we do occupy.

We have continued the policy of improving our stores and other properties to the extent that we spent $320,723 for capital improvements and $606,853 for repairs.

During 1943, two of our older and highly respected members of the organization retired from active service—our Vice-President, Burt J. Dickens, and our Treasurer, Th. Rasmussen. These men had been with this company for years and have left behind them records they can be proud of.

Due to larger than usual inventories, our bank loans on December 31, 1943 amounted to $3,000,000 and have been reduced, at February 16, 1944, to $2,300,000.

It must be evident to stockholders that there is no present possibility of a common dividend. Our working capital is not as much as it ought to be, and there is no way at present of building it up other than to plow back whatever earnings we make, over and above preferred dividends. Whether any other method can be later found to augment the working capital is something no one can tell at present.

At the end of the first half of 1943, our figures were such that we would have been justified in expecting twice the profit we finally showed at the end of the year, therefore, it would seem idle to make any predictions for 1944. Our sales at present are running over those of a year ago, and we hope this will continue.

Again, we express our appreciation for the loyal efforts of our employees during the entire very difficult year.

By order of the Board of Directors,

John McKinlay

CHAIRMAN

March 1, 1944

National Meat Markets Show Progress in Face of Many Problems

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Despite the uncertain supply of meat and the overnight changes in point values, your company has made a satisfactory showing in its meat department.

Consolidated

AT DECEMB

ASSETS

	Dec. 31, 1943	Dec. 31, 1942
CURRENT ASSETS:		
Cash in banks and on hand	$ 1,857,047.50	$ 2,080,654.82
U. S. Government securities, at cost, plus accrued interest	$ 234,451.00	
Accounts receivable	$ 283,185.51	$ 366,105.66
Less: Reserve	42,146.74	52,507.25
	$ 241,038.77	$ 313,598.41
Inventories, at lower of cost or market—		
Merchandise	$ 9,227,229.49	$ 6,433,221.27
Supplies	189,440.83	180,374.26
	$ 9,416,670.32	$ 6,613,595.53
Total current assets	$11,749,207.59	$ 9,007,848.76
OTHER ASSETS:		
Notes receivable (less reserve of $1,449.88 at December 31, 1943)	$ 3,709.30	$ 4,520.11
Mortgages receivable	33,706.54	37,042.65
Investments	2,000.00	45.00
	$ 39,415.84	41,607.76
FIXED ASSETS—AT COST, EXCEPT BUILDINGS:		
(The net value of buildings was written down against earned surplus in 1935. This write-down as to buildings owned at December 31, 1943, amounts to $1,032,352.96)		
Land	$ 2,952,631.88	$ 3,041,363.69
Buildings	$ 4,569,182.14	$ 4,668,225.06
Less: Reserve for depreciation	2,122,089.15	2,045,467.68
	$ 2,447,092.99	$ 2,622,757.38
Fixtures and equipment	$ 8,082,525.51	$ 8,212,188.28
Less: Reserve for depreciation	6,012,983.14	5,953,758.35
	$ 2,069,542.37	$ 2,258,429.93
Leaseholds and improvements being amortized	$ 112,413.83	$ 118,309.72
Total fixed assets	$ 7,581,681.07	$ 8,040,860.72
GOODWILL	$ 1.00	$ 1.00
DEFERRED CHARGES	$ 165,317.87	$ 176,703.32
	$19,535,623.37	$17,267,021.56

Balance Sheet

ER 31, 1943

LIABILITIES AND CAPITAL

	Dec. 31, 1943	*Dec. 31, 1942*
CURRENT LIABILITIES:		
Notes payable—banks	$ 3,000,000.00	$ 400,000.00
Real estate mortgages	32,630.35	31,597.38
Accounts payable	2,320,246.85	2,630,293.35
Commercial letters of credit secured by merchandise	42,335.37	142,861.24
Accrued liabilities—		
Pay roll and commissions	225,323.48	293,082.42
Taxes	865,007.60	941,004.64
Interest	3,120.61	8,157.24
Total current liabilities	$ 6,488,664.26	$ 4,446,996.27
REAL ESTATE MORTGAGES:		
Due serially within three years	$ 65,952.93	$ 63,733.82
Due after three years	219,823.86	291,931.99
	$ 285,776.79	$ 355,665.81
RESERVE FOR SELF-INSURANCE	$ 150,362.31	$ 126,728.37
CAPITAL STOCK AND SURPLUS:		
Capital stock—		
Preferred, 5½% cumulative, par value $10, redeemable at par on call or liquidation:		
Authorized and issued—200,000 shares	$ 2,000,000.00	$ 2,000,000.00
Common, no par value:		
Authorized .....800,000 shares		
Issued .....660,000 shares	8,250,000.00	8,250,000.00
Earned surplus (restricted by purchase of treasury stock, $966,406.95)	3,327,226.96	3,054,038.06
	$13,577,226.96	$13,304,038.06
Less: Treasury stock—		
	Shares	*Cost*
Preferred	56,893	$565,498.00
Common	37,350	400,908.95
	966,406.95	966,406.95
	$12,610,820.01	$12,337,631.11
	$19,535,623.37	$17,267,021.56

Statement of Consolidated Income and Surplus

FOR THE YEARS ENDED DECEMBER 31, 1943 AND DECEMBER 31, 1942

	Year ended Dec. 31, 1943	*Year ended Dec. 31, 1942*
Sales	$91,795,090.15	$89,951,516.29
Cost of sales and expenses (note)	91,135,351.64	89,128,716.29
	$ 659,738.51	$ 822,800.00
Income deductions:		
Interest	$ 36,033.89	$ 30,622.38
Loss on disposal of fixed assets	41,812.55	90,022.05
	$ 77,846.44	$ 120,644.43
	$ 581,892.07	$ 702,155.57
Provision for federal income taxes	230,000.00	290,000.00
Net income for the year	$ 351,892.07	$ 412,155.57
Earned surplus at beginning of year	3,054,038.06	2,476,247.64
Adjustments of chain store and processing taxes—prior years		86,093.53
Depreciation—prior years—disallowed for income tax purposes		293,770.37
	$ 3,405,930.13	$ 3,268,267.11
Additional federal income taxes—prior years	$	56,814.97
Preferred dividends (1943 $.55, 1942 $1.10)	78,703.17	157,414.08
	$ 78,703.17	214,229.05
Earned surplus at end of year	$ 3,327,226.96	$ 3,054,038.06

Note: Rent received for space not used by the Company in properties owned or leased amounting to $203,903.65 in 1943 and $216,735.37 in 1942 is credited to expenses.

Provision for depreciation amounting to $538,161.09 in 1943 and $533,076.26 in 1942 is included in expenses.

Dairy Foods Affected by War Demand

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Rationing and shortages of butter and cheese, high market prices on eggs, and curtailment on fresh milk and cream have limited our sales volume on this merchandise during the past year.

Auditor's Certificate

TO THE STOCKHOLDERS,
NATIONAL TEA CO.,
CHICAGO, ILLINOIS

We have examined the consolidated balance sheet of National Tea Co. and Subsidiaries at December 31, 1943 and the statements of consolidated income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and surplus present fairly the position of National Tea Co. and Subsidiaries at December 31, 1943, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Chicago, Illinois
February 15, 1944

Coffee Rationing is Removed

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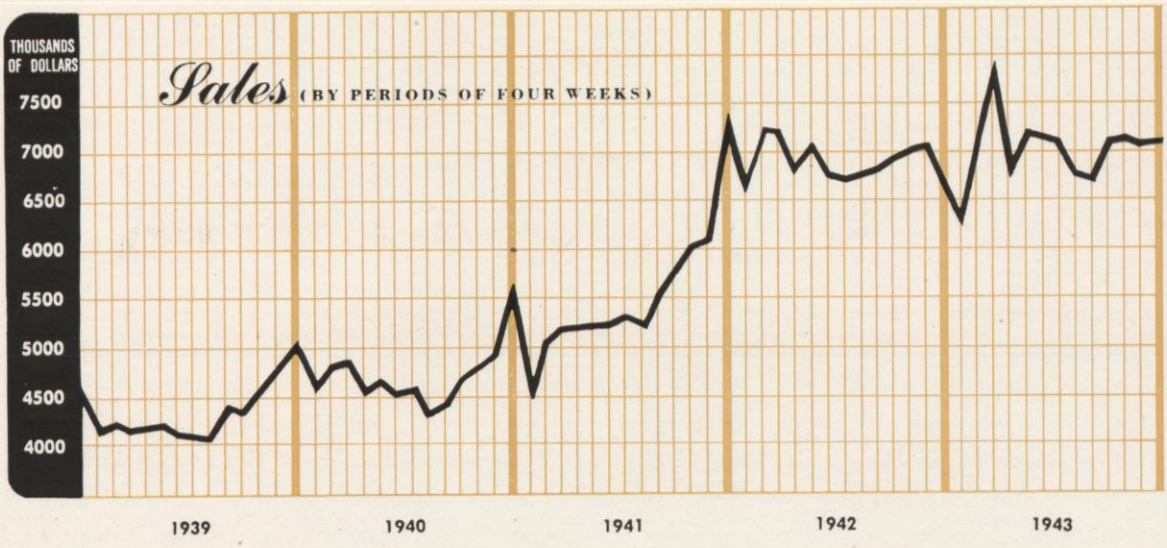
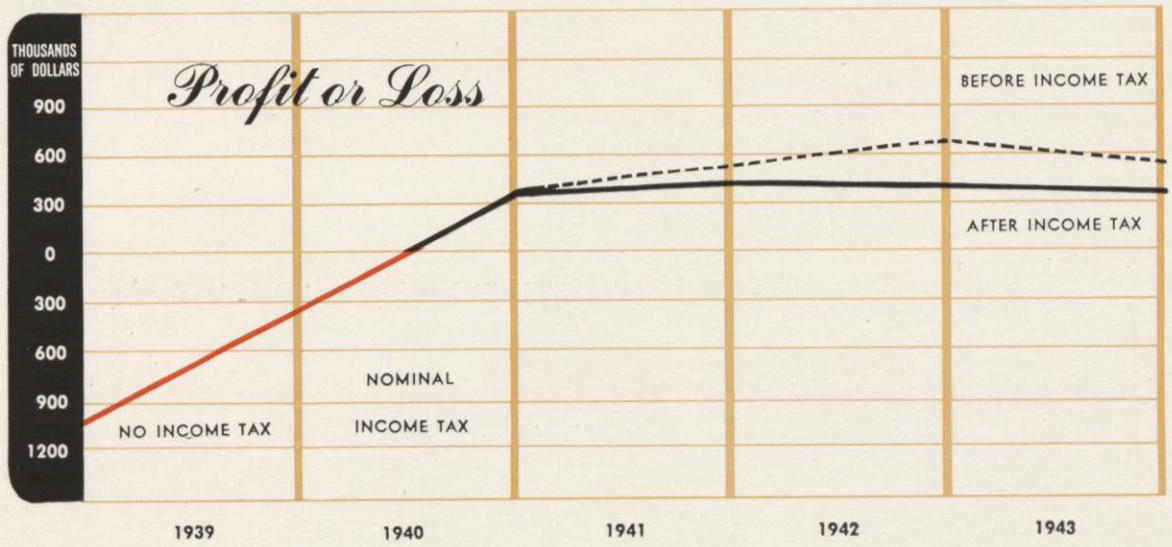
With the removal of rationing on coffee, our sales of that item in 1943 have exceeded those in 1942.





Most Canned Foods Still on Rationed List

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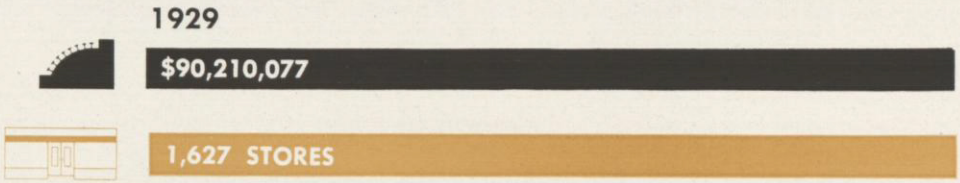
A few items have been released but the major portion continues with constant changes of point values which involve many extra store operations.

Sales and Stores



Our Personnel Problem Identical to Others

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With intensive training and careful supervision, our personnel structure, through the employment of men over the draft age, and more women, has been scantily maintained.

Officers and Directors

OF NATIONAL TEA CO.

Directors

BURT J. DICKENS
ARTHUR J. HANSEN
JOHN McKINLAY
GEORGE S. RASMUSSEN, JR.
ROBERT V. RASMUSSEN
WILLIAM E. RUSSELL
GUY A. THOMAS

Officers

JOHN McKINLAY
Chairman

ROBERT V. RASMUSSEN
President

WILLIAM E. RUSSELL
Secretary-Treasurer

CLARENCE E. BEARD
Assistant Treasurer

THOMAS H. KNOWLES
Assistant Secretary

ARTHUR J. HANSEN
Vice President

WILLIAM T. HILL
Assistant Secretary

CHARLES WOODING
Assistant Comptroller

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Transfer Agents

The First National Bank
38 S. Dearborn Street
Chicago, Illinois

The Chase National Bank
11 Broad Street
New York, N. Y.

Registrars

Continental Illinois National
Bank and Trust Co.
231 S. LaSalle Street
Chicago, Illinois

The New York Trust Company
100 Broadway
New York, N. Y.